Testimony on Housing Affordability
House Committee on Financial Services
Subcommittee on Housing and Community Opportunity

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Chairwoman Roukema, Representative Frank, and members of the Subcommittee, I am Barbara J. Thompson, Director of Policy and Government Affairs for the National Council of State Housing Agencies (NCSHA). I will become NCSHA's Executive Director on July 1.

I am testifying today on behalf of NCSHA, which represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

At the outset, I want to thank you, Chairwoman Roukema, Representative Frank, and the many other members of this Subcommittee who cosponsored legislation enacted in the last Congress to increase substantially the caps on tax-exempt private activity bonds (Bonds) and the Low Income Housing Tax Credit (Housing Credit) and index them for future inflation. With this increased authority, tens of thousands of additional lower income families each year will have the opportunity to buy their first home or rent a decent, affordable apartment.

Unfortunately, even with these increases, many people qualified to receive housing help under these programs still are not getting it, because of three obsolete provisions: the Ten-Year Rule, which forbids states to recycle billions of dollars in MRB mortgage payments to make new mortgages; MRB purchase price limits, which are based on eight-year-old home sales data, despite a 30 percent increase in home prices in the last eight years; and Housing Credit income and rent rules, which make development infeasible or very difficult in very low income, frequently rural, areas.

Representatives Houghton (R-NY) and Neal (D-MA) have introduced H.R. 951, the Housing Bond and Credit Modernization and Fairness Act of 2001, to fix these problems. Thank you, Chairwoman Roukema and Representative Frank, for your early cosponsorship of this important bill. We urge all members of the Subcommittee to cosponsor H.R. 951 soon and to ask your leadership and Ways and Means colleagues to include it in a tax bill this year.

The State HFA Affordable Housing Delivery System Works

During the last three decades, state HFAs have assumed a primary role in financing affordable housing. Their success in blending business-like efficiency with accomplishing their public mission has earned them the respect of the Congress, their states, and the community at large.

Congress, in turn, has entrusted state HFAs with administering the Bond and Housing Credit programs, the only federal programs dedicated to financing lower income first-time homebuyer mortgages and low income apartment construction.

Congress has also empowered the states to administer the HOME program, FHA-HFA multifamily risk-sharing, and Section 8 restructuring and contract administration and to borrow funds directly from the Federal Home Loan Banks. Employing these and other programs and resources, state HFAs administer the full range of affordable housing programs, including homeownership, rental, homeless, and all kinds of special needs housing.

State HFAs have strong management, broad experience in underwriting and finance, and expert staffs which number as many as 300 in the larger agencies. They have issued nearly $140 billion in Bonds to finance homeownership and apartment construction without a default and with foreclosure and delinquency rates far lower than industry averages.

State HFAs have achieved significant results, but they do not work alone. HFAs have built strong partnerships with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the unique and diverse housing challenges they confront. The results are dramatic. HFAs have financed more than 2 million first-time, lower income homebuyer mortgages and more than 1.8 million apartments, including more than 1.2 million through the Housing Credit.

State HFAs have also been strong and successful partners with HUD, when HUD rules have permitted them to use their talent and expertise to do the job. Most recently, 33 HFAs have assumed HUD's responsibility for the administration of 750,000 Section 8 project-based units.

HFAs have accomplished these results because Congress has empowered them to employ federal resources flexibly and leverage them to meet a variety of affordable housing challenges. As you well know, housing needs and conditions vary dramatically among and within states. One-size, Washington-driven housing solutions simply don't fit all.

That's why programs like the Housing Credit and Bonds are so successful. They let states and their partners respond effectively and imaginatively to their most pressing housing needs.

Build On What Works

With your leadership and support, we've won some important affordable housing battles in recent years– more HOME funding than ever before, tens of thousands of new vouchers after years of none, steady renewal of Section 8 contracts previously in jeopardy, and Bond and Credit cap increases of a size few thought possible. But we're still not winning the war. HUD's budget is half what it was two decades ago, and the Bond and Credit cap increases aren't even enough to restore the purchasing power of those vastly oversubscribed programs.

Meanwhile, one out of every seven American families has a critical housing need. That's 13.7 million families, ranging from the very poor to the middle class, according to The Center for Housing Policy's June 2000 report, *Housing America's Working Families.*

Indisputably, though, those families hit hardest are those with the least income. Of the more than 13 million families with critical housing needs, 80 percent earn 50 percent of area median income (AMI) or less. Nearly 60 percent have incomes of 30 percent of AMI or less.

HUD's 1999 Worst Case Housing Needs study shows that the number of rental units affordable to extremely low income households (households with less than 30 percent of AMI) dropped by 750,000 and the total number of units affordable to very low income households (those with less than 50 percent ofAMI) fell by 1.14 million between 1997 and 1999. HUD found that in every region of the country, rental housing affordable to extremely low income renters was in shorter supply than housing affordable to other income groups.

The Joint Center for Housing Studies of Harvard University's 2000 report, *The State of the Nation's Housing,* reveals that, "Between 1993 and 1995, the number of unsubsidized units affordable to very low income households was down 8.6 percent– a decrease of nearly 900,000 units. At the same time, the number of units affordable to extremely low income households– those with incomes less than 30 percent of area median income– fell by an even more alarming 16 percent."

In the face of growing need among extremely low income families, state HFAs report increased difficulty housing them. Though the GAO reported in 1997 that Housing Credit properties with additional subsidies were reaching families with average incomes of 25 percent of AMI, state HFAs simply do not have sufficient subsidies to begin to meet the need.

Some will suggest that the Congress provide federal resources to address rental housing needs across the income spectrum. That may be a laudable goal. But while we have a scarcity of housing resources, we urge you not to divert resources from those with the most acute housing needs. We ask you to reject proposals to increase the income limits on existing rental programs, such as the Housing Credit, Bonds, and HOME, the resources for which are insufficient to meet the needs of those they are presently designed to serve.

Clearly, existing resources are insufficient to meet the nation's rental production needs, particularly those of extremely low income families. That's why one of NCSHA's highest legislative priorities and a priority of the National Governors Association is the creation of a new, state administered rental production program, targeted in significant part to extremely low income families. We want to work with you to design a program that builds on the success of programs like Bonds and the Housing Credit, utilizes the existing, proven state HFA delivery system, and is integrated with existing state housing allocation plans and funding systems.

States are in the best position to combine new, flexible funding with Bonds, Housing Credits, and other resources to reach extremely low income families. States know their housing needs and markets and have proven delivery systems in place that can provide one-stop shopping to the development community. State administration will also assure that the impact of whatever limited funding Congress makes available is not diluted by the distribution of funds to hundreds of local communities, as under the HOME program.

The program will only work, however, if states are given the flexibility they need to tailor innovative solutions to their unique and varied housing problems. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress has set. Irrational and unnecessarily burdensome rules, regulations, and reporting requirements frustrate state HFAs and their partners, smother creativity, and delay results.

We propose that the new funds be allocated by state HFAs, subject to a state allocation plan, modeled on the Housing Credit qualified allocation plan. The plan, developed with extensive pubic input, would identify the state's priority rental housing needs and strategies for using the funds to address them.

States should be empowered to use funds for a wide range of activities, including tenant and project-based assistance, new construction, rehabilitation, preservation, and operating assistance. Funds should not be encumbered with program set-asides.

Finally, it is essential that any new program's income, rent, and other rules be compatible with those of other federal housing programs, for its combination with them will almost always be necessary to reach extremely low income families. This also creates an opportunity to streamline programs like HOME and the new Section 8 project-based voucher program, which are burdened with and limited by unnecessary federal directives.

A new program, regardless of its size, is not the whole answer. We must continue to improve existing programs that work through increased funding, deregulation, and where possible and practical, devolution of their administration to the states. That's why your support of the improvements NCSHA is seeking to Bonds and the Housing Credit through H.R. 951 is so important.

We also urge you to reauthorize HOME at a level sufficient to restore its purchasing power and extend its reach. Though Congress first authorized HOME at $2 billion more than a decade ago, HOME funding has never exceeded its present $1.8 billion. It would require an appropriation of $2 billion just to make up for inflation since HOME was first funded in FY 1992. We urge you to join us in urging House appropriators to provide at least $2.25 billion for HOME in FY 2002.

Thank you for the opportunity to share what state HFAs are doing and hope to do to create affordable housing opportunity. NCSHA and our member state HFAs are very grateful for your enthusiastic and sustained support of affordable housing. The state HFAs will continue to do their best to use federal affordable housing funds efficiently, effectively, and creatively, under the conditions unique to their states, and to earn the trust that Congress has placed in them.